



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
MAGOFFIN COUNTY
SHERIFF'S SETTLEMENT - 1998 TAXES AND
SHERIFF'S SETTLEMENT - 1998 UNMINED COAL TAXES**

August 24, 1999

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

MAGOFFIN COUNTY PAT MONTGOMERY, SHERIFF SHERIFF'S SETTLEMENT 1998 TAXES AND SHERIFF'S SETTLEMENT – 1998 UNMINED COAL TAXES AUGUST 24, 1999

We have issued an unqualified opinion on the Sheriff's tax settlement. The Sheriff has good records and accounted for tax collections and distributions.

Deposits:

The Sheriff should obtain a written agreement with the bank to properly secure tax collection deposits.

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable Paul Salyer, Magoffin County Judge/Executive
Honorable Pat Montgomery, Magoffin County Sheriff
Members of the Magoffin County Fiscal Court

Independent Auditor's Report

We have audited the Magoffin County Sheriff's Settlement - 1998 Taxes as of August 24, 1999, and the Sheriff's Settlement - 1998 Unmined Coal Taxes as of August 24, 1999. These tax settlements are the responsibility of the Magoffin County Sheriff. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standard, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statements on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the Magoffin County Sheriff's taxes charged, credited, and paid as of August 24, 1999, in conformity with the basis of accounting described in the preceding paragraph.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following area of noncompliance.

- The Sheriff Should Have A Written Agreement To Protect Deposits

To the People of Kentucky
Honorable Paul E. Patton, Governor
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Honorable Pat Montgomery, Magoffin County Sheriff
Members of the Magoffin County Fiscal Court

In accordance with Government Auditing Standards, we have also issued a report dated June 26, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 26, 2000

MAGOFFIN COUNTY
PAT MONTGOMERY, SHERIFF
SHERIFF'S SETTLEMENT - 1998 TAXES

August 24, 1999

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Transferred From Outgoing Sheriff	\$ 97,628	\$ 64,070	\$ 200,396	\$ 73,237
Franchise Corporation	67,867	42,212	103,155	
Oil and Gas Properties	14,304	9,464	29,789	10,624
Increased Through Erroneous Assessments	40	25	79	28
Penalties	4,895	3,443	10,044	3,700
Gross Chargeable to Sheriff	<u>\$ 184,734</u>	<u>\$ 119,214</u>	<u>\$ 343,463</u>	<u>\$ 87,589</u>
<u>Credits</u>				
Discounts	\$ 253	\$ 168	\$ 527	\$ 188
Exonerations	772	509	1,603	572
Delinquents:				
Real Estate	28,262	18,562	58,424	20,836
Tangible Personal Property	147	91	214	29
Uncollected Franchise Corporation	<u>3,404</u>	<u>2,192</u>	<u>6,655</u>	
Total Credits	<u>\$ 32,838</u>	<u>\$ 21,522</u>	<u>\$ 67,423</u>	<u>\$ 21,625</u>
Net Tax Yield	\$ 151,896	\$ 97,692	\$ 276,040	\$ 65,964
Less: Commissions *	<u>6,456</u>	<u>4,152</u>	<u>11,042</u>	<u>2,803</u>
Net Taxes Due	\$ 145,440	\$ 93,540	\$ 264,998	\$ 63,161
Taxes Paid	<u>145,603</u>	<u>93,169</u>	<u>265,144</u>	<u>63,174</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (163)</u>	<u>\$ 371</u>	<u>\$ (146)</u>	<u>\$ (13)</u>

* and ** See Page 4

MAGOFFIN COUNTY
PAT MONTGOMERY, SHERIFF
SHERIFF'S SETTLEMENT - 1998 TAXES
August 24, 1999
(Continued)

* Commissions:

4.25% on	\$	315,552
4% on	\$	276,040

** Special Taxing Districts:

Library District	\$	186
Health District		30
Extension District		188
Soil Conservation District		<u>(33)</u>

Due Districts or (Refunds Due Sheriff)	\$	<u><u>371</u></u>
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The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
PAT MONTGOMERY, SHERIFF
SHERIFF'S SETTLEMENT - 1998 UNMINED COAL TAXES

August 24, 1999

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for Unmined Coal	\$ 19,381	\$ 12,823	\$ 40,361	\$ 14,394
Additional Bills	57	36	124	49
Penalties	9	5	19	2
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Gross Chargeable to Sheriff	\$ 19,447	\$ 12,864	\$ 40,504	\$ 14,445
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<u>Credits</u>				
Discounts	\$ 380	\$ 251	\$ 791	\$ 282
Exonerations	83	55	173	62
Delinquents	185	122	386	137
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Total Credits	\$ 648	\$ 428	\$ 1,350	\$ 481
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Net Tax Yield	\$ 18,799	\$ 12,436	\$ 39,154	\$ 13,964
Less: Commissions *	799	529	1,566	594
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Net Taxes Due	\$ 18,000	\$ 11,907	\$ 37,588	\$ 13,370
Taxes Paid	18,000	11,907	37,588	13,370
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Due Districts as of Completion of Fieldwork	\$ 0	\$ 0	\$ 0	\$ 0
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* Commissions:

4.25% on \$ 45,199

4% on \$ 39,154

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS

August 24, 1999

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintains deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral.

MAGOFFIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
August 24, 1999
(Continued)

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1998. Property taxes were billed to finance governmental services for the year ended June 30, 1999. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 6, 1999 through May 29, 1999.

Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 1998. Property taxes are billed to finance governmental services for the year ended June 30, 1999. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 29, 1999 to May 29, 1999.

Note 4. Interest Income

The Magoffin County Sheriff earned \$859 as interest income on 1998 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

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COMMENT AND RECOMMENDATION

MAGOFFIN COUNTY
PAT MONTGOMERY, SHERIFF
COMMENT AND RECOMMENDATION

August 24, 1999

STATE LAWS AND REGULATIONS:

The Sheriff Should Have A Written Agreement To Protect Deposits

The Sheriff maintains deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of February 2, 1999, the Sheriff had bank deposits of \$390,633; FDIC insurance of \$100,000; and collateral pledged or provided of \$1,000,000. Even though the Sheriff obtained sufficient collateral of \$1,000,000, there was no written agreement between the Sheriff and the depository institution, signed by both parties, securing the Sheriff's interest in the collateral. We recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff Montgomery's Response:

We'll take care of it.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Paul Salyer, Magoffin County Judge/Executive
Honorable Pat Montgomery, Magoffin County Sheriff
Members of the Magoffin County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the Magoffin County Sheriff's Settlement - 1998 Taxes as of August 24, 1999, and Sheriff's Settlement - 1998 Unmined Coal Taxes as of August 24, 1999, and have issued our report thereon dated June 26, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Magoffin County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Paul Salyer, Magoffin County Judge/Executive
Honorable Pat Montgomery, Magoffin County Sheriff
Members of the Magoffin County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
June 26, 2000

